

PRESCOTT COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2005

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PRESCOTT COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September, 2004 Election)		
Kevin Schafer	President	2004
Marnie Cline	Vice President	2005
Kyle Chafa (appointed 7/19/04)	Board Member	2004
Kathy West	Board Member	2004
Matt Wood (resigned 6/21/04)	Board Member	2005
Randy Cooper	Board Member	2006

Board of Education (After September, 2004 Election)		
Kathy West	President	2007
Randy Cooper	Vice President	2006
Kevin Schafer	Board Member	2007
John Roberts	Board Member	2005
Marnie Cline	Board Member	2005

School Officials		
Eric Wood	Superintendent	2005
Melissa Baker	District Secretary/Treasurer	2005
Reynoldson, Van Werden & Reynoldson, LLP	Attorney	2005



Independent Auditor's Report

To the Board of Education
Prescott Community School District
Prescott, Iowa

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Prescott Community School District, Prescott, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Prescott Community School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Governmental Auditing Standards, we have also issued our reports dated August 17, 2005, on our consideration of the Prescott Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 14 and 41 through 43 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Prescott Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004, (which are not presented herein) and expressed qualified opinions on those financial statements. Other supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Van Maanen & Associates, P.C.

Van Maanen & Associates, P.C.
Certified Public Accountants

August 17, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Prescott Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Financial Highlights

- General Fund revenues increased from \$913,888 in fiscal 2004 to \$928,422 in fiscal 2005, while General Fund expenditures increased from \$911,380 in fiscal 2004 to \$963,811 in fiscal 2005. This resulted in a decrease in the District's General Fund balance from \$255,136 in fiscal 2004 to \$216,747 in fiscal 2005, a 15 percent decrease from the prior year.
- The increase in General Fund revenues was attributable mainly to an increase in state aid. The increase in expenditures was due primarily to an increase in salary and benefits, tuition and open enrollment expenditures, and Special Education expenditures.
- The District began receiving local option sales tax money in fiscal 2004 and has continued updating the school and grounds. The district used this money in fiscal year 2005 to repair/replace roofs and to paint and seal the gym.
- The District has the lowest combined tax rate in AEA 14, even though taxable valuations decreased from fiscal 2004 to fiscal 2005.
- The General Fund solvency ratio has been above average. It is currently 22.49% for fiscal 2005, down from 27.99% for fiscal 2004.

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *Government-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the Government-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The statements for *fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

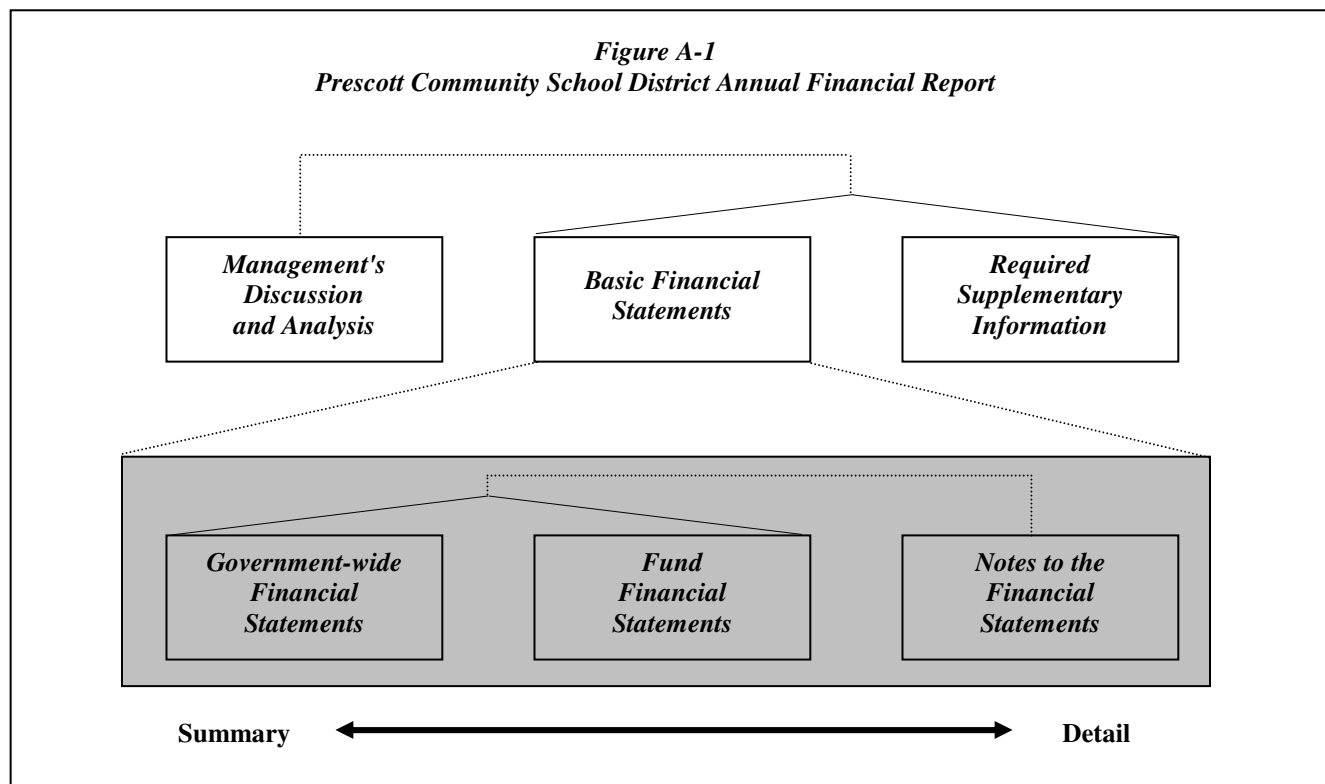


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2
Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • State of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Government-wide Statements

The Government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two Government-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the Government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities*: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.
 - The District's governmental funds include the General Fund, Special Revenue Funds, and Capital Projects Fund.
- *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the Government-wide statements.
 - The District's enterprise funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

- *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others, such as the Parent-Teacher Organization (PTO) Funds.
 - Parent-Teacher Organization (PTO) Funds – The District accounts for assets belonging to the Parent-Teacher Organization in this fund.
 - Employee Funds – The District accounts for assets belonging to the Employees of the school in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2005 compared to 2004.

Figure A-3 Condensed Statement of Net Assets							
	Governmental Activities		Business Type Activities		Total		Total Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
Current and other assets	\$ 768,005	786,252	3,620	3,550	771,625	789,802	-2.3%
Capital assets	323,944	324,056	1,903	2,258	325,847	326,314	-0.1%
Total assets	1,091,949	1,110,308	5,523	5,808	1,097,472	1,116,116	-1.7%
Long-term debt outstanding	-	-	-	-	-	-	
Other liabilities	435,436	449,927	1,949	1,893	437,385	451,820	-3.2%
Total liabilities	435,436	449,927	1,949	1,893	437,385	451,820	-3.2%
Net assets							
Invested in capital assets, net of related debt	323,944	324,056	1,903	2,258	325,847	326,314	-0.1%
Restricted	2,484	1,775	-	-	2,484	1,775	
Unrestricted	330,085	334,550	1,671	1,657	331,756	336,207	-1.3%
Total net assets	\$ 656,513	660,381	3,574	3,915	660,087	664,296	-0.6%

The District's combined net assets decreased by 0.6% to \$656,513. Total assets for governmental activities decreased by 1.65%. This was due to a decrease in property tax receivables. Total liabilities for governmental activities decreased by 3.22%. This was also due to the decrease in deferred property tax revenue for the succeeding year.

The net assets of the District's business type activities decreased by 8.71%, which is due to the fact the District has held down lunch prices, even though costs have continued to increase, in order to not create an undue hardship to students' families. The District's governmental activities have helped to support the Lunch program.

Changes in net assets – Figure A-4 shows the changes in net assets for the year ended June 30, 2005. The total revenue for the District's governmental activities increased slightly at 0.05%. Program revenues decreased due to a decrease in open enrollment revenue and not receiving school renovation and fire safety grants in fiscal year 2005, which was received in fiscal year 2004. General revenues increased enough to cover the decreases in program revenues. The increase in general revenues were mainly attributable to increases in property tax revenue and state aid. The total expenditures for the District's governmental activities increase by 5.91%. This was mainly due to increases in salaries and benefits, tuition and open enrollment fees, and special education costs.

The total revenue for the District's business type activities increased by 4.78%. Revenue from daily meal sales decreased while Federal reimbursements for meals increased. Total expenses for the District's business type activities remained almost the same as the prior year and decreased by only 0.36%.

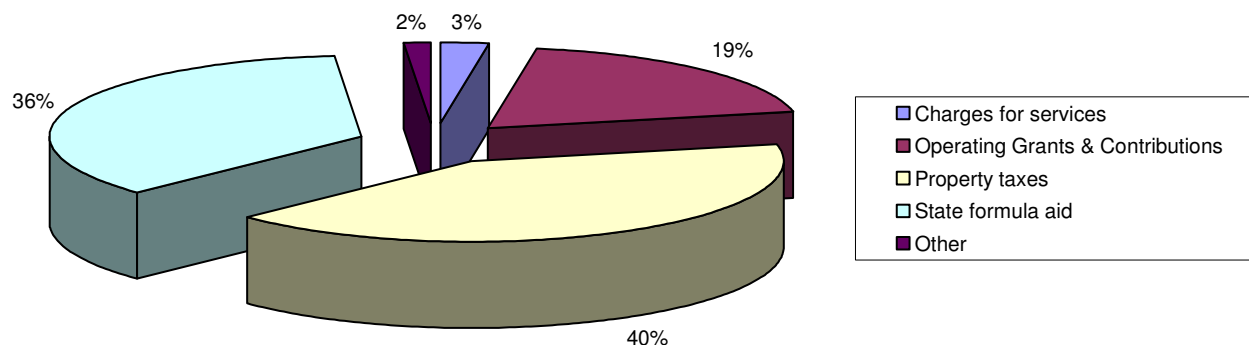
Figure A-4 Changes in Net Assets						
	Governmental Activities		Business Type Activities		Total District	
	Year ended June 30, 2005	2004	Year ended June 30, 2005	2004	Year ended June 30, 2005	2004
Revenues:						
Program revenues:						
Charges for service and sales	\$ 18,524	44,258	8,571	10,057	27,095	54,315
Operating grants, contributions and restricted interest	186,100	217,745	13,276	10,814	199,376	228,559
General revenues:						
Property tax	433,619	426,052	-	-	433,619	426,052
Unrestricted states grants	373,743	329,505	-	-	373,743	329,505
Unrestricted investment earnings	9,745	5,544	3	3	9,748	5,547
Other	5,999	4,134	38	42	6,037	4,176
Total revenues	1,027,730	1,027,238	21,888	20,916	1,049,618	1,048,154
Program expenses:						
Governmental activities:						
Instruction	676,969	581,320	-	-	676,969	581,320
Support services	309,168	255,579	-	-	309,168	255,579
Non-instructional programs	288	236	25,229	25,320	25,517	25,556
Other expenses	42,173	134,045	-	-	42,173	134,045
Total expenses	1,028,598	971,180	25,229	25,320	1,053,827	996,500
Transfers between governmental and business	(3,000)	(2,000)	3,000	2,000	-	-
Change in net assets	\$ (3,868)	54,058	(341)	(2,404)	(4,209)	51,654

As shown in Figure A-4, property tax and unrestricted state grants account for 78.58% of the funding for governmental activities, while charges for services and operating grants and contributions make up 99.87% of the funding for business type activities. The District's expenses primarily relate to instruction and support services, which account for 95.87% of the total expenses.

Figure A-5 shows the split of funding from various sources. The District had total revenues of \$1,049,618 of which \$1,027,730 was for governmental activities and \$21,888 was for business type activities. The District's predominate revenues are related to property taxes at 40% of total revenue and state formula aid at 36% of total revenue.

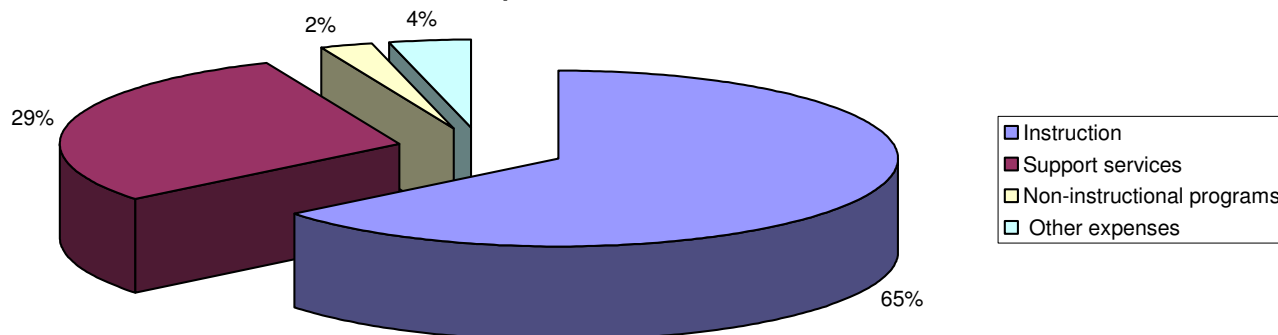
Total expenses surpassed revenues, decreasing net assets \$4,209 over last year. Governmental activities decreased net assets by \$3,868, while business type activities had a decrease in net assets of only \$341.

Figure A-5
Sources of Revenue for Fiscal Year 2005



The District's predominant expenses are related to instruction, with 65% of total expenses, as can be seen in Figure A-6. Another 29% is related to support services.

Figure A-6
Expenses for Fiscal Year 2005



Governmental Activities

Revenues for governmental activities were \$1,027,730 while total expenses amounted to \$1,028,598.

Figure A-7 presents the cost of four major District activities: instruction, support services, non-instructional programs, and other expenses. The table also shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

Figure A-7
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 676,969	506,463
Support services	309,168	308,237
Non-instructional programs	288	288
Other expenses	42,173	8,986
Totals	<u>\$ 1,028,598</u>	<u>823,974</u>

- The cost of all governmental activities this year was \$1,028,598.
- Total costs of services were decreased by the following revenues: Federal and state government grants and contributions totaling \$186,100 and \$18,524 from charges from services.
- The net cost of governmental activities of \$823,974 was financed with \$ 396,154 in property tax, \$373,743 in unrestricted state grants, \$37,465 in local option sales tax, and \$9,745 in interest income.

Business Type Activities

Revenues of the District's business type activities were \$24,888 and expenses were \$25,229. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, investment income, and interfund transfers. (See Figure A-4)

Charges for services were \$8,571 or 34.44% of revenue. This represents the amount paid by students/staff for daily food service. Federal and state reimbursement for meals, including payments for free and reduced lunches, was \$13,276 or 53.28% of revenue.

Financial Analysis of the District's Funds

As previously noted, the Prescott Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$332,569, slightly below last year's ending fund balances of \$336,325. The primary reasons for the decrease in combined fund balances in fiscal 2005 is due to the decrease in property tax revenues and increased Special Education costs, which aren't recovered until the following year.

Governmental Fund Highlights

- The General Fund balance decreased from \$255,136 in fiscal 2004 to \$216,747 in fiscal 2005. The District had an increase in revenues of over \$14,000. However, expenditures increased by over \$50,000. The excess expenditures were funded by the fund balance, which is still at a healthy solvency ratio of 22%.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$5,364 in fiscal 2004 to \$21,274 in fiscal 2005. The District had a decrease in revenues of over \$32,000, which was due to not receiving construction grants, which were received in the prior fiscal year. Expenditures also decreased by almost \$70,000 as the Construction and Fire Safety grant projects were completed during the last fiscal year.

- The Capital Projects Fund balance increased from \$6,923 in fiscal 2004 to \$15,214 in fiscal 2005. This was the District's second year to receive Local Option Sales Tax money, which was used to repair and replace aging roofs and to paint and seal the gym. The final roofs will be repaired and/or replaced in future years, as funds become available.
- The Management Fund balance increased from \$67,820 in fiscal 2004 to 78,851 in fiscal 2005. The District's revenues increased by over \$8,000 in anticipation of being able to pay for fuel costs, through IJUMP, out of this fund. Expenditures remained stable because the District decided not to participate in this program when it was discovered that most of the fuel costs were not allowed to be paid out of this fund.

Proprietary Fund Highlights

The School Nutrition Fund balance decreased slightly from \$3,915 to \$3,574. Revenues and expenditures were approximately the same as the prior year. Transfers from the General fund were increased in order to stabilize the Nutrition fund balance.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except its private-purpose trust and agency funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's certified budget is prepared on the cash basis.

The District's total actual receipts were approximately \$138,000 less than the total budgeted receipts, a variance of 11.6%. The most significant change resulted in the District receiving less in various components of state and federal revenues and open enrollment fees than originally anticipated.

Total expenditures were less than budgeted due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year.

A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2005, the District had invested \$325,847, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, and equipment and furniture. (See Figure A-8) This amount represents a net decrease of 0.1 percent from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was approximately \$36,000.

Figure A-8 Capital Assets, net of Depreciation							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
Land	\$ 20,000	20,000	-	-	20,000	20,000	0.0%
Buildings	202,713	180,274	-	-	202,713	180,274	12.4%
Equipment and furniture	101,231	123,782	1,903	2,258	103,134	126,040	-18.2%
					-	-	
Total	\$ 323,944	324,056	1,903	2,258	325,847	326,314	-0.1%

There was an increase in capital assets during the year in the buildings category. The District's buildings and improvements totaled \$202,713 at June 30, 2005, compared to \$180,274 at June 30, 2004. Capital assets activities included the re-roofing of the original 1914 building and the music room, a new tornado alarm system, and sealing and painting the gym.

Long-Term Debt

At June 30, 2005, the District had no general obligation or other long-term debt outstanding.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of two existing circumstances that could significantly affect its financial health in the future:

- Although the District has experienced a slight decline in enrollment for the past two years, the District expects this to level off at or near the current level.
- The district will continue to improve the facilities with the use of the one-cent sales tax revenue. This will, in turn, increase the District's capital assets and will make the site more desirable as a junior high site if the District should happen to combine with another school district.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Melissa Baker, District Secretary/Treasurer and Business Manager, Prescott Community School District, 813 1st Street, Prescott, Iowa, 50859.

Prescott Community School District

Basic Financial Statements

PRESCOTT COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2005

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents	\$ 365,228	2,482	367,710
Receivables:			
Property tax:			
Delinquent	5,595	-	5,595
Succeeding year	363,829	-	363,829
Local Option Sales & Services tax	3,148	-	3,148
Accounts	7,954	-	7,954
Interfund receivable	20,000	-	20,000
Inventories	-	1,138	1,138
Prepaid expenses	2,251	-	2,251
Capital assets, net of accumulated depreciation (note 5)	323,944	1,903	325,847
Total assets	1,091,949	5,523	1,097,472
Liabilities			
Accounts payable	2,959	179	3,138
Other payable (note 7)	2,680	-	2,680
Salaries and benefits payable	45,968	1,770	47,738
Interfund payable	20,000	-	20,000
Deferred revenue:			
Succeeding year property tax	363,829	-	363,829
Total liabilities	435,436	1,949	437,385
Net assets			
Invested in capital assets, net of related debt	323,944	1,903	325,847
Restricted for:			
Prepaid Expenses	2,251	-	2,251
Farm Bureau Grant	233	-	233
Unrestricted	330,085	1,671	331,756
Total net assets	\$ 656,513	3,574	660,087

See notes to financial statements.

PRESCOTT COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

	Program Revenues		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 488,685	18,524	126,478
Special instruction	142,615	-	25,504
Other instruction	45,669	-	-
	<u>676,969</u>	<u>18,524</u>	<u>151,982</u>
Support Service:			
Instructional staff services	26,287	-	-
Administration services	154,015	-	-
Operating and maintenance of plant services	58,626	-	-
Transportation services	70,240	-	931
	<u>309,168</u>	<u>-</u>	<u>931</u>
Non-instructional programs	<u>288</u>	<u>-</u>	<u>-</u>
Other expenditures:			
Facilities acquisition	8,986	-	-
AEA flowthrough	33,187	-	33,187
	<u>42,173</u>	<u>-</u>	<u>33,187</u>
Total governmental activities	1,028,598	18,524	186,100
Business type activities:			
Non-instructional programs:			
Nutrition services	25,229	8,571	13,276
Total	<u>\$ 1,053,827</u>	<u>27,095</u>	<u>199,376</u>

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(343,683)	-	(343,683)
(117,111)	-	(117,111)
(45,669)	-	(45,669)
(506,463)	-	(506,463)
(26,287)	-	(26,287)
(154,015)	-	(154,015)
(58,626)	-	(58,626)
(69,309)	-	(69,309)
(308,237)	-	(308,237)
(288)	-	(288)
(8,986)	-	(8,986)
-	-	-
(8,986)	-	(8,986)
(823,974)	-	(823,974)
-	(3,382)	(3,382)
(823,974)	(3,382)	(827,356)

Exhibit B

PRESCOTT COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

	Program Revenues		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest
Totals continued from previous pages	\$ 1,053,827	27,095	199,376
General Revenues:			
Property tax levied for:			
General purposes			
Debt service			
Capital outlay			
Unrestricted state grants			
Unrestricted investment earnings			
Other			
Transfers between governmental and business			
Total general revenues			
Change in net assets			
Net assets beginning of year			
Net assets end of year			

See notes to financial statements.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(823,974)	(3,382)	(827,356)
361,792	-	361,792
-	-	-
72,095	-	72,095
373,743	-	373,743
9,477	3	9,480
5,999	38	6,037
(3,000)	3,000	-
820,106	3,041	823,147
(3,868)	(341)	(4,209)
660,381	3,915	664,296
\$ 656,513	3,574	660,087

PRESCOTT COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	General	Capital Projects	Manage- ment	PPEL	Nonmajor Special Revenue	Total
Assets						
Cash and pooled investments	\$ 230,825	12,066	78,528	43,326	483	365,228
Receivables:						
Property tax:						
Delinquent	4,787	-	323	485	-	5,595
Succeeding year	317,277	-	14,075	32,477	-	363,829
Local Option Sales & Services tax	-	3,148	-	-	-	3,148
Accounts	7,954	-	-	-	-	7,954
Interfund receivable	20,000	-	-	-	-	20,000
Prepaid expenses	2,251	-	-	-	-	2,251
Total assets	\$ 583,094	15,214	92,926	76,288	483	768,005
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 422	-	-	2,537	-	2,959
Other payable (note7)	2,680	-	-	-	-	2,680
Salaries and benefits payable	45,968	-	-	-	-	45,968
Interfund payable	-	-	-	20,000	-	20,000
Deferred revenue:						
Succeeding year property tax	317,277	-	14,075	32,477	-	363,829
Total liabilities	366,347	-	14,075	55,014	-	435,436
Fund balances:						
Fund balance:						
Reserved for:						
Farm Bureau Grant	233	-	-	-	-	233
Unreserved:						
Designated	-	-	-	-	483	483
Undesignated	216,514	15,214	78,851	21,274	-	331,853
Total fund balances	216,747	15,214	78,851	21,274	483	332,569
Total liabilities and fund balances	\$ 583,094	15,214	92,926	76,288	483	768,005

See notes to financial statements.

PRESCOTT COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2005

Total fund balances of governmental funds (Exhibit C)	\$ 332,569
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.

323,944
<hr/>

Net assets of governmental activities (Exhibit A)	<u><u>\$ 656,513</u></u>
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See notes to financial statements.

PRESCOTT COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 GOVERNMENTAL FUNDS
 Year ended June 30, 2005

	General	Capital Projects	Manage- ment	PPEL	Nonmajor Special Revenue	Total
Revenues:						
Local sources:						
Local tax	\$ 338,905	37,465	22,887	34,362	-	433,619
Tuition	15,304	-	-	-	-	15,304
Other	14,129	268	1,113	658	2,515	18,683
State sources	512,400	-	16	24	-	512,440
Federal sources	47,684	-	-	-	-	47,684
Total revenues	928,422	37,733	24,016	35,044	2,515	1,027,730
Expenditures:						
Current:						
Instruction:						
Regular instruction	471,407	-	3,666	-	-	475,073
Special instruction	140,840	-	-	-	-	140,840
Other instruction	40,091	-	-	2,124	3,114	45,329
	652,338	-	3,666	2,124	3,114	661,242
Support services:						
Instructional staff services	26,287	-	-	-	-	26,287
Administration services	142,891	-	4,064	5,930	-	152,885
Operation and maintenance of plant services	55,617	-	2,827	-	-	58,444
Transportation services	53,203	-	2,428	-	-	55,631
	277,998	-	9,319	5,930	-	293,247
Non-instructional programs	288	-	-	-	-	288
Other expenditures:						
Facilities acquisition	-	29,442	-	11,080	-	40,522
AEA flowthrough	33,187	-	-	-	-	33,187
	33,187	29,442	-	11,080	-	73,709
Total expenditures	963,811	29,442	12,985	19,134	3,114	1,028,486
Excess (deficiency) of revenues over (under) expenditures	(35,389)	8,291	11,031	15,910	(599)	(756)
Other financing uses:						
Operating transfers out	(3,000)	-	-	-	-	(3,000)
Total other financing uses	(3,000)	-	-	-	-	(3,000)
Net change in fund balances	(38,389)	8,291	11,031	15,910	(599)	(3,756)
Fund balances beginning of year	255,136	6,923	67,820	5,364	1,082	336,325
Fund balances end of year	\$ 216,747	15,214	78,851	21,274	483	332,569

See notes to financial statements.

WINTERSET COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 Year ended June 30, 2005

Net change in fund balances - total governmental funds (Exhibit E) \$ (3,756)

***Amounts reported for governmental activities in the
 statement of activities are different because:***

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$	36,536	
Depreciation expense		(36,648)	(112)

Change in net assets of governmental activities (Exhibit B) \$ (3,868)

See notes to financial statements.

PRESCOTT COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2005

	School Nutrtion
Assets	
Cash and pooled investments	\$ 2,482
Inventories	1,138
Capital assets, net of acumulated depreciation	1,903
Total assets	<u>5,523</u>
Liabilities	
Accounts payable	179
Salaries and benefits payable	1,770
Total liabilities	<u>1,949</u>
Net assets	
Invested in capital assets, net of related debt	1,903
Unrestricted	1,671
Total net assets	<u>\$ 3,574</u>

See notes to financial statements.

PRESCOTT COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUND
 Year ended June 30, 2005

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for service	<u>\$ 8,571</u>
Operating expenses:	
Non-instructional programs	
Food Service operations:	
Salaries	10,487
Benefits	4,127
Services	481
Supplies	9,779
Depreciation	355
	<u>25,229</u>
Operating loss	<u>(16,658)</u>
Non-operating revenues:	
Local sources	25
State sources	325
Federal sources	12,951
Contributions from private sources	13
Interest Income	3
	<u>13,317</u>
Change in net assets	(3,341)
Other financing sources:	
Interfund transfers	3,000
Net assets beginning of year	<u>3,915</u>
Net assets end of year	<u><u>\$ 3,574</u></u>

See notes to financial statements.

PRESCOTT COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
June 30, 2005

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 8,571
Cash paid to employees for services	(14,606)
Cash paid to suppliers for goods or services	(8,506)
Net cash used in operating activities	<u>(14,541)</u>
Cash flows from non-capital financing activities:	
Other local sources	38
State grants received	325
Federal grants received	11,210
Interfund transfers	3,000
Net cash provided by non-capital financing activities	<u>14,573</u>
Cash flows from investing activities:	
Interest on investments	<u>3</u>
Net increase in cash and cash equivalents	35
Cash and cash equivalents at beginning of year	<u>2,447</u>
Cash and cash equivalents at end of year	<u><u>\$ 2,482</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (16,658)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	1,741
Depreciation	355
Decrease in receivables	0
(Increase) in inventories	(35)
Increase in salaries and benefits payable	8
Increase in accounts payable	48
Net cash used in operating activities	<u><u>\$ (14,541)</u></u>
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current assets:	
Cash and investments	\$ 2,482
Cash and cash equivalents at year end	<u><u>\$ 2,482</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$1,741 of federal commodities.

See notes to financial statements.

PRESCOTT COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
June 30, 2005

	<u>Agency Fund</u>
Assets	
Cash and pooled investments	<u>\$ 3,138</u>
Total assets	<u>3,138</u>
Liabilities	
Other payables	<u>3,138</u>
Total liabilities	<u>3,138</u>
Net assets	<u><u>\$ -</u></u>

See notes to financial statements

PRESCOTT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(1) Summary of Significant Accounting Policies

Prescott Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades pre-kindergarten through twelve and special education. The geographic area served includes the City of Prescott, Iowa and the predominately agricultural territory in Adams County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Prescott Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Prescott Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organization - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Adams County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

PRESCOTT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The Management Fund is a Special Revenue Fund used to account for revenues derived from specific services which are usually required by law or regulation to be accounted for in a separate fund.

The PPEL Fund is a Special Revenue Fund used to account for revenues derived from specific sources which are usually required by law or regulation to be accounted for in a separate fund.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports a fiduciary fund whose focus is on net assets. The District's fiduciary fund is:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

PRESCOTT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

PRESCOTT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

PRESCOTT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Currently the district has not established a written capitalization threshold policy. The general policy is to capitalize assets with an initial individual cost in excess of \$500 and estimated useful life in excess of two years. The district is currently in the process of establishing a written policy as such.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings and improvements	20-40 years
Furniture and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees do not accumulate earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

PRESCOTT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2005, the District had investments in the Iowa Schools Joint Investment Trust as follows:

Diversified Portfolio	\$236,360
Certificate of Deposit	<u>100,000</u>
Total	<u>\$336,360</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk. The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) **Due From and Due to Other Funds**

The detail of interfund receivables and payables at June 30, 2005 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Special Revenue:	
	Physical Plant and Equipment Levy	<u>\$20,000</u>

The District approved the loan in a prior year. The terms of the loan include a repayment rate of \$10,000 per year plus 7% interest annually until paid off. Over the course of the current fiscal year, \$10,000 principle, plus interest was repaid.

PRESCOTT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Proprietary Fund:		
School Nutrition	General	<u>\$3,000</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. The board voted to raise meal prices in an effort to see the School Nutrition fund become self-supporting.

PRESCOTT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(5) Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 20,000	-	-	20,000
Total capital assets not being depreciated	20,000	-	-	20,000
Capital assets being depreciated:				
Buildings and improvements	432,565	34,412	-	466,977
Furniture and equipment	302,816	2,124	-	304,940
Total capital assets being depreciated	735,381	36,536	-	771,917
Less accumulated depreciation for:				
Buildings and improvements	252,291	11,972	-	264,263
Furniture and equipment	179,034	24,676	-	203,710
Total accumulated depreciation	431,325	36,648	-	467,973
Total capital assets being depreciated, net	304,056	(112)	-	303,944
Governmental activities capital assets, net	\$ 324,056	(112)	-	323,944
Business type activities:				
Furniture and equipment	\$ 7,432	-	-	7,432
Less accumulated depreciation	5,174	355	-	5,529
Business type activities capital assets, net	\$ 2,258	(355)	-	1,903

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$ 15,736
Special	1,775
Other	340

Support services:

Administration	1,130
Operation and maintenance of plant	181
Transportation	14,609
Facilities Acquisition	2,877
	36,648

Unallocated depreciation

Total governmental activities depreciation expense	\$ 36,648
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Business type activities:

Food services	\$ 355
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PRESCOTT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306 9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$22,527, \$22,394, and \$22,242, respectively, equal to the required contributions for each year.

(7) Risk Management

The District was a member in the Iowa School Employee Benefits Association (ISEBA), an Iowa Code Chapter 28E organization until June 30, 2004. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July, 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

In July, 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December, 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members that terminated from ISEBA on June 30, 2004 received an assessment in December, 2004 which is due July 1, 2005. The total assessment for terminated members is approximately \$3.9 million. The District's share of this assessment was \$5,359. The District contested this assessment and the matter was resolved in mediation. The District is required to pay half of the assessment and has recorded that amount as a liability as of June 30, 2005.

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$33,187 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

PRESCOTT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(9) Operating Lease

The District entered into a five-year agreement which expires in March, 2010 for the lease of its copy equipment. The agreement requires minimum base rents at a monthly rate plus fees based on usage. The total minimum lease commitment under the agreement is as follows:

Year ending June 30,	Minimum Lease Payments
2006	\$ 3,552
2007	3,552
2008	3,552
2009	3,552
2010	2,664
	<u>\$ 16,872</u>

The total lease expense for the year ended June 30, 2005 was \$888.

Required Supplementary Information

PRESCOTT COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES
 IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL
 FUND TYPES AND PROPRIETARY FUND
 REQUIRED SUPPLEMENTARY INFORMATION
 Year Ended June 30, 2005

	Governmental Fund Types- Actual	Proprietary Fund Type- Actual	Total Actual	Budget	Final to Actual Variance- Positive (Negative)
Revenues:					
Local sources	\$ 474,381	8,612	482,993	514,580	(31,587)
State sources	512,440	325	512,765	560,820	(48,055)
Federal sources	47,684	11,210	58,894	118,000	(59,106)
Total revenues	1,034,505	20,147	1,054,652	1,193,400	(138,748)
Expenditures:					
Instruction	661,148	-	661,148	910,477	249,329
Support services	290,567	-	290,567	365,000	74,433
Noninstructional programs	-	23,112	23,112	39,377	16,265
Other expenditures	73,997	-	73,997	183,905	109,908
Total expenditures	1,025,712	23,112	1,048,824	1,498,759	449,935
Excess (deficiency) of revenues over (under) expenditures	8,793	(2,965)	5,828	(305,359)	311,187
Other financing sources, net	(3,000)	3,000	-	1,000	(1,000)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	5,793	35	5,828	(304,359)	310,187
Balances beginning of year	359,435	2,447	361,882	381,039	(19,157)
Balances end of year	\$ 365,228	2,482	367,710	76,680	291,030

See accompanying independent auditor's report.

PRESCOTT COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
Year ended June 30, 2005

	Governmental Fund Types					
	General			Special Revenue		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 935,401	(6,979)	928,422	61,710	(135)	61,575
Expenditures	962,997	814	963,811	33,273	1,960	35,233
Net	(27,596)	(7,793)	(35,389)	28,437	(2,095)	26,342
Other financing sources (use)	7,000	(10,000)	(3,000)	(10,000)	10,000	-
Beginning fund balances	251,421	3,715	255,136	103,900	(29,634)	74,266
Ending fund balances	\$ 230,825	(14,078)	216,747	122,337	(21,729)	100,608

	Governmental Fund Types					
	Capital			Total		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 37,394	339	37,733	1,034,505	(6,775)	1,027,730
Expenditures	29,442	-	29,442	1,025,712	2,774	1,028,486
Net	7,952	339	8,291	8,793	(9,549)	(756)
Other financing sources (use)	-	-	-	(3,000)	-	(3,000)
Beginning fund balances	4,114	2,809	6,923	359,435	(23,110)	336,325
Ending fund balances	\$ 12,066	3,148	15,214	365,228	(32,659)	332,569

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 20,147	1,741	21,888
Expenses	23,112	2,117	25,229
Net	(2,965)	(376)	(3,341)
Other financing sources (use)	3,000	-	3,000
Beginning retained earnings	2,447	1,468	3,915
Ending retained earnings	\$ 2,482	1,092	3,574

PRESCOTT COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
Year ended June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

Other Supplementary Information

PRESCOTT COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 Year ended June 30, 2005

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash and pooled investments	\$ 4,512	10,084	11,458	3,138
Total assets	\$ 4,512	10,084	11,458	3,138
Liabilities				
Liabilities:				
Other payables	\$ 4,512	10,084	11,458	3,138
Total liabilities	\$ 4,512	10,084	11,458	3,138

See accompanying independent auditor's report.

PRESCOTT COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 396,154	426,058	511,255	477,271
Tuition	15,304	37,595	41,294	26,207
Other	56,148	16,046	11,616	51,574
Intermediate sources	-	150	-	-
State sources	512,440	467,726	463,612	449,117
Federal sources	47,684	79,663	67,230	23,225
Total	1,027,730	1,027,238	1,095,007	1,027,394
Expenditures:				
Instruction:				
Regular instruction	475,073	453,652	512,219	418,379
Special instruction	140,840	129,003	118,326	97,333
Other instruction	45,329	62,309	57,289	57,418
Support services:				
Student services	-	-	-	7,211
Instructional staff services	26,287	5,171	3,142	1,636
Administration services	152,885	140,753	138,267	140,972
Operation and maintenance of plant services	58,444	58,242	57,708	48,723
Transportation services	55,631	52,619	118,351	96,985
Central support services	-	-	-	88
Non-instructional programs	288	236	359	-
Other expenditures:				
Facilities acquisition	40,522	101,136	18,467	41,067
AEA flowthrough	33,187	32,909	35,085	34,449
Total	\$ 1,028,486	1,036,030	1,059,213	944,261

See accompanying independent auditor's report.

**Van Maanen
& ASSOCIATES, P.C.**

Certified Public Accountants

705 Main St.
Pella, IA 50219
641-628-3737

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of
Prescott Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Prescott Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents and have issued our report thereon dated August 17, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Prescott Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-05 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Prescott Community School District and other parties to whom the District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Prescott Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Van Maanen & Associates, P.C.

Van Maanen & Associates, P.C.
Certified Public Accountants

August 17, 2005

PRESCOTT COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

YEAR ENDED June 30, 2005

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE

No matters were reported.

REPORTABLE CONDITIONS

II-A-05 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable since less than \$500,000 in Federal Awards.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-05 Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

IV-B-05 Certified Budget - Disbursements for the year ended June 30, 2005, did not exceed the amount budgeted.

IV-C-05 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

PRESCOTT COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

YEAR ENDED June 30, 2005

Part IV: Other Findings Related to Required Statutory Reporting: (continued)

- | | |
|---------|--|
| IV-D-05 | <u>Travel Expense</u> - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted. |
| IV-E-05 | <u>Business Transactions</u> - No business transactions between the District and District officials or employees were noted. |
| IV-F-05 | <u>Bond Coverage</u> - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations. |
| IV-G-05 | <u>Board Minutes</u> - No transactions were noted requiring Board approval which had not been approved by the Board. |
| IV-H-05 | <u>Certified Enrollment</u> - No variances in the basic enrollment data certified to the Iowa Department of Education were noted. |
| IV-I-05 | <u>Deposits and Investments</u> - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy were noted. |
| IV-J-05 | <u>Certified Annual Report</u> - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported. |